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South-East Asia looks north to buttress its future

ASKED about the prospects for a common East Asian currency, Rodolfo Severino, the secretary-general of the Association of South-East Asian Nations (ASEAN), looks around the room for the youngest person present. "Perhaps in her lifetime," he says. A giant trading block that comprises South-East Asia, Japan, China and South Korea may be 30 years off, but it seems to be on its way. It would bring together one-third of the world's population with a combined GDP of almost \$7 trillion at present. That would make it a considerable counterweight to the world's two existing economic powerhouses, the United States and the European Union. In time it might outweigh them.

With so many historical animosities to overcome, progress will be slow. But as Edgardo Espiritu, until last month the Philippines' finance minister, points out, it took divided Europe many decades to move towards a common currency. "Perhaps it will also take us that time." Paradoxically, the economic crisis may have given the region a push towards greater unity. "The East Asian financial crisis should bring the East Asian nations closer together," says Daim Zainuddin, Malaysia's finance minister. Even countries that once saw themselves as somewhat apart from the rest have become more clubby. Kim Dae Jung, South Korea's president and its most democratic leader to date, now talks of the "mutual interests and concerns" that his country has discovered with others in the region.

The strongest evidence of this new enthusiasm for unity is that East Asia's leaders are planning to get together more often. When the ten members of ASEAN met in Manila last November, they were joined not only by Mr Kim but also by Zhu Rongji, China's prime minister, and Keizo Obuchi, Japan's prime minister. All of them agreed that meetings of this group, awkwardly named " ASEAN -plus-three", would become a regular event.

South-East Asia's three powerful neighbours have a strong commercial reason for looking south: they know that a bigger pie will be good for everybody. At the Manila meeting, the ASEAN members agreed to speed up the elimination of tariffs as part of their plan to form a free-trade area among themselves. The entry of China into the World Trade Organisation will make that country's economy more competitive and more open to investment from the region, not least from the many overseas Chinese. Japan and South Korea, which are among the biggest foreign investors in South-East Asia, will benefit from a single ASEAN market which their factories in the region can supply.

But not everything about such a single market is straightforward. Take the question of a financial liferaft. During the crisis Japan launched a temporary \$30 billion fund to help Asian countries overcome their problems. The South-East Asians would like Japan to turn this into a permanent facility, a sort of lender of last resort should anyone get into trouble again. Although Japanese officials deny it, such a fund sounds remarkably like the "Asian Monetary Fund" that Japan and

Malaysia proposed during the worst of the region's troubles, only to have the idea quickly shot down by America. The fear then was that any bail-out fund led by Asia would not impose sufficiently tough conditions to ensure that the recipients of the money would carry out the necessary restructuring. Indeed, Japan's own sickly economy, caused by failure to reform its financial industry, bears witness to that.

Even so, America seems to be less bothered by the scheme in its latest guise. But what does Japan get out of it? Easy: the more finance Japan provides in the region, the better it will be for its campaign to internationalise the yen, which seems to have lost ground against the dollar and the euro of late. And at the same time as doling out money at the Manila meeting, Japanese officials were trying to elicit pledges of support from ASEAN leaders for their candidate for the vacant post of managing director of the IMF, Eisuke Sakakibara, a former top financial official.

The Japanese were pushing at open doors. The IMF had been the chief bogeyman during the financial crisis, mainly because it was seen to be too western-influenced and uncaring. All the same, some South-East Asian countries swallowed its medicine and got better. One refused, but still got better. "We have resorted to different ways to overcome our economic problems," says Malaysia's Mr Daim, referring to the imposition of selective capital controls against the advice of many financial commentators. "The results have been positive. The speed and extent of our recovery is comparable to any other crisis-hit economy in the region...But what makes our recovery outstanding is the fact that it was achieved without the painful social and political upheaval."

Really? Political life in Malaysia certainly seems to have its painful moments. As for the economy, it does look in better shape, and perhaps the capital controls really were a help. But if they have delayed corporate and financial restructuring, they may have been less helpful than they seemed.

Looking at the region as a whole, it is too early to say who has done the best job of putting his house in order. When the crisis struck, different countries were at different economic stages and consequently suffered different degrees of damage. For instance, whereas Thailand is concerned mainly about the effect of its high level of non-performing loans on the financial sector, the Philippines' Jose Pardo, who took over from Mr Espiritu as finance minister last month, says his top priority is to curb a ballooning budget deficit.

When South-East Asia's bounce-back starts to peter out, more problems may emerge. And although the renewed growth looks impressive in local-currency terms, it seems less wonderful when measured in dollars (for the effect on exports, see 6). "The crisis really has not changed the sort of things we have to look at," says Bruce Gale, of Political & Economic Risk Consultancy in Singapore. As the recovery continues, he will be watching two main indicators: how well countries are carrying out their economic reconstruction, and how strong their national institutions are. At present, few countries in South-East Asia can claim good marks for both.

The main political impetus behind a more united East Asia is the hope that it would provide greater security. The area contains some of the world's most dangerous flashpoints. A real war between nuclear-armed India and Pakistan over the disputed territory of Kashmir would greatly unsettle all of Asia. China has threatened to invade Taiwan should it ever declare independence from the motherland. And no one really knows what will happen to dangerously unstable North Korea.

China has long been suspected of wanting to increase its political hegemony in the region. Meanwhile, America's direct influence may decline, although Japan could increasingly pick up that role through a new defence pact with the Americans. For South-East Asian countries that have been variously colonised, invaded or pushed around by China or Japan in the past, the prospect of either country extending its influence in the region is a highly sensitive issue.

Trouble specks

The Spratly Islands are a case in point. China lays claim over all of the South China Sea (see), which includes many of the world's busiest shipping lanes and is the main highway for Japan's trade. The Spratlys are no more than a collection of reefs, although the area may yet prove to be rich in oil and other minerals. But the islands are also claimed, in whole or in part, by Taiwan, the Philippines, Brunei, Malaysia and Vietnam. During the past year the Chinese have erected a building on one of the reefs which they claim is a shelter for fishermen, but which to all the world looks like a fort. This has increased tensions, and provoked several tussles with the Philippine navy.

Now that all the countries involved are pals in ASEAN -plus-three, the Philippines has tried to broker a peace plan. Unhelpfully, the Philippine navy is so ill-equipped that it can hardly put to sea, let alone defend a territorial claim. The Chinese have noted, but not gone along with, the Philippines' idea for a code of conduct for countries with competing claims over the Spratlys. However, Chinese officials have been reported as saying that although they would not drop claims of sovereignty, they might consider joint development of the islands. That could mean one less flashpoint, but others could still pop up. That is why South-East Asia's leaders have decided to form a troika of (yet-to-be-named) ministers who would respond to regional emergencies. Joseph Estrada, the president of the Philippines, says the team will be "more proactive" in dealing with urgent problems. In the past, ASEAN has maintained a policy of "non-interference" in members' internal affairs. That policy has not been scrapped, but the new troika points that way.

What triggered the latest move was the crisis in East Timor. The lack of a regional response to the killings and destruction unleashed when the East Timorese voted for independence from Indonesia left a vacuum which had to be filled by Australia and the West. Many East Timorese leaders are suspicious of their South-East Asian neighbours, viewing them as supporters of Indonesia's brutality against them, if only by omission. Many do not want an independent East Timor to join ASEAN . They see their country as a Pacific nation and consider Australia as one of their best friends.

Yet some in South-East Asia saw the events in East Timor almost as an attempt by the West to recolonise part of the region. The UN transitional authority on the island is keen to dispel that impression: the military forces there will soon pass from the command of an Australian to a Filipino. If an ASEAN troika had been in place at the time, would it have moved swiftly enough to end the violence, even if backed by the UN ? No one will know unless something like East Timor happens again. It might do, perhaps in the shape of Aceh in Indonesia breaking away, or of an uprising against the regime in Myanmar. Although many in South-East Asia would doubt it, western nations—with plenty of other trouble spots nearer home to worry about—would probably welcome ASEAN trying to take care of problems in the region on its own.

As for Asian values...

If it does, the last thing on its mind will be "Asian values". When the tiger economies were going strong, those values were praised to the skies by leaders such as Malaysia's Dr Mahathir, though rather less is heard of them now. Thailand and the Philippines never really believed that there were some features of life in Asia, such as supportive families and greater levels of trust, that somehow set it apart from the West. Asian values are now widely seen as an invention to find common ground for countries with widely differing ethnic, religious and political backgrounds. "The campaign for Asian values will come to be seen in the years ahead as a pragmatic interlude during which Asian leaders briefly sought to justify authoritarian rule before losing power to the middle class they themselves had helped to create by managing their economies for so long with such success," says Victor Mallet in his book "The Trouble with Tigers".

But the issue has not disappeared. “It now goes under another name: ‘western interference’,” says Zaitun Kasim, a parliamentary candidate for a grassroots women’s initiative in Malaysia. It still echoes in South-East Asian criticism—some of it legitimate—of the West’s dominance of international organisations such as the IMF and the WTO . It is also heard when some of the regional leaders inveigh against the forces of globalisation. It is least credible when it takes the form of accusations that greater democratic ambitions, too, are a western-influenced evil. After all, the world’s biggest democracy, India, is an Asian country. The world’s third-biggest may well be emerging in the east too, in the battered and bloodied shape of Indonesia. Democratic values, just like Asian values, are universal.

Different countries may have different ways of getting there. “We want to develop home-grown democracies,” says Charles Santiago, a Malaysian economist at Stamford College in Kuala Lumpur. Some things may be the same, he says: greater financial transparency, free media and the right of assembly. Other things may be different: for example, many South-East Asians see the lobby system in the United States as a type of KKN . “The exact form of the political systems that evolve will be different,” says Abhisit Vejjajiva, the young Thai minister. But “greater democracy will happen all over the region. Even the new members of ASEAN have seen it coming. To be part of the international community, at least economically, they will have to adapt.”

There is a risk that the speed of the region’s recovery may delay the necessary tasks of fixing broken financial systems, restructuring companies and reforming economies. But the financial crisis has helped with something that will make such reforms more likely to succeed: the move towards more plural, more democratic societies. The faster South-East Asia can get on with that, the better.

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